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ANALYSIS OF THE EAST GERMAN ECONOMIC PLAN FOR 1956

[Comment: This report presents an analysis of the East German Economic Plan for 1956, as published on 25 December 1955 in the weekly report of the German Institute for Economic Research (Deutsches Institut fuer Wirtschaftsforschung), a West German organization devoted to economic research, located in Berlin.]

Thus far, publications concerning the East German Economic Plan for 1956 are of a preliminary character, since all data are based on estimated results of the 1955 economic year. The 1955 figures have actually been computed up to about September. The trend of development indicated in the preliminary versions is nevertheless worthy of some consideration.

The year 1956 is not only the first year of the Second Five-Year Plan for East Germany, but also the first year of a new phase of economic integration within the East Bloc, characterized by mutual coordination of all economic plans

Economic Development up to 1955

Neither the past nor the coming economic year can be contemplated in an isolated fashion, since they are both subject to the influence of the manifold changes in the general development of the economy. During the last 3 years, expectations for an accelerated expansion of the economy after the cessation of reparations were not realized. This was largely due to the fact that the previous economic policy, which perforce was hostile to consumers because of the existing reparations obligations, later gave way to the proconsumer New Course. Increased domestic consumption absorbed not only all goods in the approximate volume of the former reparations deliveries, but also required adjustments in production facilities and in investment policies insofar as they hampered a speedy expansion. Also, the New Course was not confined to East Germany, but was simultaneously introduced throughout the East Bloc, leading to difficulties in foreign trade.

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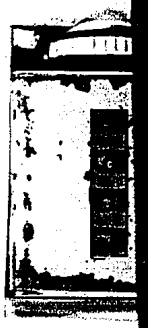

Development of Consumption

The following table presents information on retail turnover, including restaurant sales, as gathered from East German sources:

	Retail Turnover at Prevailing Prices for Each Year (billion DM)			
	1952	1953	1954	1955 Plan
Total retail turnover	25.0	27.4	29.7	30.6
Food, beverages, tobacco	15.0	16.4	17.15	16.95
Industrial Goods	9.95	9.8	11.25	12.4
Tax Load on Domestic consumption through excise taxes*	9.8	11.6	11.5	10.6
Retail turnover at prevailing prices, minus excise taxes**	15.2	15.8	18.2	20.0
Increase in net consumption (% of preceding year)	--	0.4	15	10

*Consumption taxes are not only a burden on domestic consumption. Since these taxes are levied at the production level, an increasing share of the burden falls on export goods; this is compensated for, however, by export price equalizations.

**This series corresponds approximately to the real development of consumption.

As early as 1954, domestic consumption, not counting excise taxes, had increased 2.5 billion DM, or at least by an amount equivalent to the value of previous reparations deliveries, according to figures on retail trade turnover and turnover in restaurants. The increase took place mainly in the field of industrial goods, and to a much smaller extent in the field of foodstuffs and beverages. However, the supply in 1954 did not satisfy the new mass purchasing power created by wage increases, tax reductions, etc. Hence, the increase in demand and production, accompanied by a further rise in the relative share of individual goods, especially during the first quarters of 1955, exceeded the amounts stipulated in the plan.

Such a development of consumption was made possible only through a change in the direction of production. A planned economy reacts with extraordinary slowness to any changes in the plan. Although plans were modified as early as mid-1953, manufacture of the means of production continued.

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Development of Gross Industrial Production

The following tables provide information on the development of gross industrial production in East Germany, gathered from East German sources.

	Planned Prices (billion DM)			
	1950	1953	1954*	1955
Means of production	13.4	21.6	24.0	24.9
Industrial consumer goods	6.5	9.2	11.2	12.1
Foods, beverages, tobacco, etc.	3.4	6.4	6.9	7.4
Total gross production	23.3	37.2	42.1	44.4

	Planned Prices (%)			
	1950	1953	1954	1955
Means of production	57.4	58	57	56.1
Industrial consumer goods	27.8	27.7	26.7	27.3
Food, beverages, tobacco, etc.	14.8	17.8	16.4	16.6

*Including a 900-million-DM Special Program (Sonderprogramm), to increase at a relatively accelerated pace throughout 1954; the rate of growth dropped considerably in 1955, although the plan had long since changed the course of production.

The production of consumer goods proved to be much more flexible after certain tax reliefs and material assistance had been granted to private enterprises which worked in this sector of the economy without any specific assignment under the plan. In return for these privileges the enterprises were also obliged to take over two thirds of a special program, amounting to about 965 million DM, which had been launched at great cost; it concerned the subsidiary manufacture (nebenbetriebliche Herstellung) of consumer goods from waste material.

Development in the field of capital goods production is greatly influenced by the situation in foreign markets. Goods previously produced for reparations deliveries were supposed to be sold as exports at full value. In 1954, however, East Germany failed to increase exports by the 2.5 billion DM expected; it achieved an export rise of only 1,160,000,000 DM because foreign sales of machines and plant equipment, in the production of which East Germany specializes, met with difficulties after the introduction of the New Course in the East Bloc. This, together with the difficulties encountered in the production change-over, explains the sharp reduction of the growth rate reflected in the 1955 plan.

Economic Plan for 1956

The Economic Plan for 1956 keeps to a middle ground in its goods, in comparison with previous years.

Over-all gross industrial production is to be increased 8.6 percent, after having risen 12.2 percent in 1950, 13.1 percent in 1954, and 6.5 percent in 1955, as planned. The relation of the growth rate of capital goods to that of consumer goods has been reversed again in the latest plan.

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Whether these goals can be considered as realistic and attainable is a moot question. According to the discussions of the 25th Session of the Central Committee of the SED [Socialist Unity Party], the coordination of the production plan with the plans of the other East Bloc countries was not fully achieved, since the contemplated increases were regarded as unattainable by the competent East German ministries. The increases listed in the plan seem to be the result of a compromise based on a rather high estimate of the production capacities of East German enterprises.

The following table shows the planned gross industrial production in East Germany for 1956 (1955 equals 100):

Heavy industry	110.0
Heavy machine construction	113.3
General machine construction	114.1
Light industry	106.4
Foodstuffs industry	108.2
Construction industry (Ministry for Reconstruction)	110.4
Total	108.6

	Increase Rates Coordinated With East Bloc Countries	Increase Rates Proposed by Relevant Ministries
Heavy machine construction	115.1	110.8
General machine construction	114.1	113.3
Light industry	107.3	106.4
Reconstruction	119.2	110.1

The expected increase in production per worker is correspondingly high; it has been set at 8.8 percent (1954, 4.1 percent; third quarter 1955, 9.3 percent). The lowering of prime costs is also rather substantial; it has been set at 5.2 percent (1954, 1.1 percent; so far in 1955, 4.26 percent).

The volume of state investments is scheduled to increase 39.7 percent, compared with 21 percent and 14 percent, respectively, during the two preceding years. Since investments in agriculture and construction are to be lowered, the increase will primarily benefit the industrial sector.

The additional funds are to be employed mainly for rationalization and modernization. The share of investments for equipment is to increase from 45.2 percent to 50.6 percent of the total investment volume. Capacities in the basic materials are to be expanded substantially and investments in heavy industry are to increase 48 percent. The machine industry has been assigned an increase of as much as 187 percent in investment funds, while investments in light industries and foodstuff industries are to rise only 5.8 percent over the preceding year.

This especially affects private industry. Since 1954, this group has had the privilege of spending 25 percent of its net earnings, free of taxes, on investments. Now this privilege is to be granted only by special permission, because it is claimed that too many new investments were made in this sector over the last 2 years.

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The increase in state investments raises the share of investments in the social product, even if large-scale nongovernmental investments in preceding years are taken into account. Nevertheless, since thus far the rate of consumption has been rather high in view of the low level of total production, it can be assumed that the investment quota is still lower than in the Federal Republic. For this reason alone the rates of growth in production, for the time being, cannot be expected to equal those of the Federal Republic.

Employment of 96,000 new workers in 1956, as compared with 71,000 in 1955, represents a relatively high estimate. Whether the low number for 1955 indicates an especially high demand for unproductive purposes during that period (such as the People's Police, etc.) is a moot question. While the addition of new labor is scheduled to amount to about 1.5 percent of the number employed, the so-called wage fund is slated to rise 5.3 percent. This, together with a planned increase in retail turnover of approximately similar scope, provides at least a small improvement in the over-all standard of living.

The remaining parts of the Economic Plan for 1956 contain no surprises. In the field of agriculture, higher yields are demanded mainly from animal husbandry. Investment funds, however, amounting to 525 million DM, are less than half those of last year. The number of machines available is to be increased as indicated (in percent of 1955): harvester combines, 53.7; potato-planting machines, 31.2; and seed drills, 32.8; this is not very much in view of the prevailing low supply of machines. The utilization and care of tractors is to be improved.

Development of Agricultural Yields

According to information from East Germany, the following table presents actual and planned per-hectare yields of the items listed:

	1934-38	1952	1953	1954	1955 Plan	1956 Plan
Grain (100 kg)	20.6	24.8	23.2	23.3	26.3	26.7
Potatoes (100 kg)	173	168	168	210	205	200
Sugar beets (100 kg)	291	293	291	339	339	325
Milk production per cow; 3.2% fat content (kg)	2,600	2,532	--*	--*	--*	2,580
Increase in total livestock production (% of preceding year)	--	--	--	--	25.2	7-8**

*No information available for 1953; the increase claimed for 1954 is 233 kilograms; the plan for 1955 stipulated an increase of 10.7 percent.

**Slaughter animals, 7 percent; milk, 6.9 percent; eggs, 13.6 percent; and wool, 10.5 percent.

The above figures show only a trend. The values given for the period, 1934-1938 are average, while the later figures are probably obtained from model farms. The average yields, even today, are below the 1934-1938 figures.

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Additional funds in the amount of 332 million DM have been approved for residential construction in general; this should enable a 35.8-percent increase in total output. From these data it can be concluded that in 1955, about 930 million DM, or roughly three quarters of the approved funds, has actually been used for construction. On the basis of the appropriations for 1956, about 51,000 to 52,000 new apartment units can be counted on -- considerably less than the average of about 70,000 new apartment units annually which are planned for the Second Five-Year Plan.

The Economic Plan for 1956, in general, seems to have been drawn up in a relatively careful way, even though the figures in all parts of the plan closely approach the limits imposed by existing capacities. Great stress is laid on the expansion of machine construction, both in production plans and in the investment program. Also, the volume of exports, which are mainly based on the machine construction industries, is scheduled to increase 15 percent. All these factors indicate that, now as before, the role assigned to East Germany in the integration of the East Bloc is that of an important center of the machine industry which is to be further expanded in that capacity.

Otherwise, the Economic Plan for 1956 indicates that the more liberal economic policy in force since 1953 has reverted to a stricter socialist course. Production of the crafts, for example, is to increase only 2.3 percent; a good deal of stress is laid on strengthening producer cooperatives for the crafts. In the field of agriculture, the MTS received clear instructions for the new year to carry out 45.5 percent, instead of the previous 35.5 percent, of all mechanized field work for Agricultural Producer Cooperatives and to provide service for the "working peasants" only within the limits of their capacity. The role of the Agricultural Producer Cooperatives is being strengthened further by new price regulations for agricultural products, consisting in rather small increases in compulsory delivery prices (Erfassungspreise) and greater reductions in purchase prices (Aufkaufpreis), which have a depressing effect especially on the incomes of the small peasants. The planned expansion of the state and of the cooperative trade network is mentioned specifically; furthermore, as discussed before, the tax relief previously granted on investments by the private sector of industry is being considerably limited.

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